

**EAST SIDE CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)  
Wilmington, Delaware

**FINANCIAL STATEMENTS**

June 30, 2006 and 2005

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**EAST SIDE CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)

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## **INDEPENDENT AUDITORS' REPORT**

February 23, 2007

Board of Directors  
**East Side Charter School**  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of East Side Charter School, Wilmington, Delaware (a component unit of the State of Delaware) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of East Side Charter School as of June 30, 2006 and 2005, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its

Board of Directors  
**East Side Charter School**

compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary information on page 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Side Charter School's basic financial statements. The additional information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

East Side Charter School has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

  
BARBACANE, THORNTON & COMPANY

**EAST SIDE CHARTER SCHOOL**  
**STATEMENTS OF NET ASSETS**  
June 30, 2006 and 2005

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 665,789	\$ 375,824
Accounts receivable	107,121	15,201
Due from other governments	<u>31,330</u>	<u>25,864</u>
<b>Total current assets</b>	<b>804,240</b>	<b>416,889</b>
<b>NONCURRENT ASSETS</b>		
Capital assets, net of depreciation	<u>79,012</u>	<u>62,998</u>
<b>TOTAL ASSETS</b>	<b><u>883,252</u></b>	<b><u>479,887</u></b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	31,386	21,297
Accrued salaries and related costs	33,659	57,718
Deferred revenue	<u>2,152</u>	<u>1,593</u>
<b>Total current liabilities</b>	<b>67,197</b>	<b>80,608</b>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences liability	<u>37,046</u>	<u>30,400</u>
<b>TOTAL LIABILITIES</b>	<b><u>104,243</u></b>	<b><u>111,008</u></b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	79,012	62,998
Restricted for specific programs	526,761	217,148
Unrestricted	<u>173,236</u>	<u>88,733</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 779,009</u></b>	<b><u>\$ 368,879</u></b>

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2006

	Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes In Net Assets Total Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>						
Instructional services						
Supporting services:						
Operation and maintenance of facilities		\$ 1,760,198	\$ ...	\$ 432,305	\$ ...	\$ (1,327,893)
Transportation		199,481	...	...	240,000	40,519
School food services		129,738	...	110,522	...	(19,216)
Before and After School program		34,930	5,460	77,254	...	47,784
Kindergarten Readiness program		10,346	58,840	...	...	48,494
Depreciation-unallocated		104,161	131,245	45,000	...	72,084
		<u>27,507</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(27,507)</u>
<b>Total Charter School</b>		<b>\$ 2,266,361</b>	<b>\$ 195,545</b>	<b>\$ 665,081</b>	<b>\$ 240,000</b>	<b>(1,165,735)</b>

**GENERAL REVENUES**

Charges to school districts	517,381
State aid not restricted to specific purposes	1,002,018
Earnings on cash and equivalents	17,767
Rental revenues	29,091
(Loss) on disposal of capital assets	(13,319)
Miscellaneous	22,927
<b>Total general revenues</b>	<b>1,575,865</b>

**CHANGE IN NET ASSETS**

410,130

**NET ASSETS**

Beginning of year

368,879

End of year

\$ 779,009

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2005

Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes In Net Assets Total Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 1,180,144	\$ ...	\$ 426,772	\$ 35,000	\$ (718,372)
Supporting services:					
Operation and maintenance of facilities	66,955	...	...	...	(66,955)
Transportation	80,296	...	...	...	(80,296)
School food services	54,425	60,250	...	...	5,825
Before and After School program	15,844	24,980	...	...	9,136
Kindergarten Readiness program	83,833	69,850	29,000	...	15,017
Depreciation-unallocated	25,023	...	...	...	(25,023)
<b>Total Charter School</b>	<b>\$ 1,506,520</b>	<b>\$ 155,080</b>	<b>\$ 455,772</b>	<b>\$ 35,000</b>	<b>(860,668)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					288,445
State aid not restricted to specific purposes					654,626
Earnings on cash and equivalents					7,187
<b>Total general revenues</b>					<b>950,258</b>
<b>CHANGE IN NET ASSETS</b>					<b>89,590</b>
<b>NET ASSETS</b>					
Beginning of year					279,289
End of year					\$ 368,879

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
**BALANCE SHEETS-GOVERNMENTAL FUNDS**  
June 30, 2006 and 2005

	2006			2005		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash and equivalents	\$ 604,052	\$ 61,737	\$ 665,789	\$ 275,950	\$ 99,874	\$ 375,824
Accounts receivable	107,121	...	107,121	15,201	...	15,201
Due from other governments	31,330	...	31,330	25,864	...	25,864
<b>TOTAL ASSETS</b>	<b>\$ 742,503</b>	<b>\$ 61,737</b>	<b>\$ 804,240</b>	<b>\$ 317,015</b>	<b>\$ 99,874</b>	<b>\$ 416,889</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 31,386	\$ ...	\$ 31,386	\$ 21,297	\$ ...	\$ 21,297
Accrued salaries and related costs	33,659	...	33,659	57,718	...	57,718
Deferred revenue	2,152	...	2,152	1,593	...	1,593
<b>Total liabilities</b>	<b>67,197</b>	<b>...</b>	<b>67,197</b>	<b>80,608</b>	<b>...</b>	<b>80,608</b>
<b>FUND BALANCES</b>						
Reserved for encumbrances	16,800	...	16,800	...	...	...
Reserved for specific programs	526,761	...	526,761	217,148	...	217,148
Unreserved - Designated for contingencies	100,000	...	100,000	100,000	...	100,000
Unreserved (deficit)	31,745	61,737	93,482	(80,741)	99,874	19,133
<b>Total fund balances</b>	<b>675,306</b>	<b>61,737</b>	<b>737,043</b>	<b>236,407</b>	<b>99,874</b>	<b>336,281</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 742,503</b>	<b>\$ 61,737</b>	<b>\$ 804,240</b>	<b>\$ 317,015</b>	<b>\$ 99,874</b>	<b>\$ 416,889</b>

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
**RECONCILIATION OF BALANCE SHEETS - GOVERNMENTAL FUNDS**  
**TO STATEMENTS OF NET ASSETS**  
**June 30, 2006 and 2005**

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	<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	<b>\$ 737,043</b>	<b>\$ 336,281</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$168,363 for 2006 and \$140,038 for 2005. The related accumulated depreciation is \$89,351 for 2006 and \$77,040 for 2005.	79,012	62,998
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(37,046)</u>	<u>(30,400)</u>
<b>Total net assets-governmental activities</b>	<b><u>\$ 779,009</u></b>	<b><u>\$ 368,879</u></b>

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**Years Ended June 30, 2006 and 2005**

	2006			2005		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Charges to school districts	\$ 517,381	\$ ...	\$ 517,381	\$ 288,445	\$ ...	\$ 288,445
State aid	1,112,540	...	1,112,540	654,626	...	654,626
Federal aid	266,090	...	266,090	235,153	...	235,153
Earnings on cash and equivalents	17,767	...	17,767	7,187	...	7,187
School food services	82,714	...	82,714	60,250	...	60,250
Charges for services	125,079	...	125,079	49,498	...	49,498
Other local sources	516,221	...	516,221	261,951	...	261,951
Rental revenues	29,091	...	29,091	...	...	...
Miscellaneous	22,317	610	22,927	4,000	...	39,000
<b>Total revenues</b>	<b>2,689,200</b>	<b>610</b>	<b>2,689,810</b>	<b>1,561,110</b>	<b>35,000</b>	<b>1,596,110</b>
<b>EXPENDITURES</b>						
Current:						
Instructional services	1,753,552	...	1,753,552	1,165,231	4,300	1,169,531
Supporting services:						
Operation and maintenance of facilities	157,923	38,747	196,670	66,955	...	66,955
Transportation	129,738	...	129,738	80,296	...	80,296
School food services	34,930	...	34,930	54,425	...	54,425
Before and After School program	10,346	...	10,346	15,844	...	15,844
Kindergarten Readiness program	104,161	...	104,161	83,833	...	83,833
Capital outlay	59,651	...	59,651	5,707	...	5,707
<b>Total expenditures</b>	<b>2,250,301</b>	<b>38,747</b>	<b>2,289,048</b>	<b>1,472,291</b>	<b>4,300</b>	<b>1,476,591</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>438,899</b>	<b>(38,137)</b>	<b>400,762</b>	<b>88,819</b>	<b>30,700</b>	<b>119,519</b>
<b>FUND BALANCES</b>						
Beginning of year	236,407	99,874	336,281	147,588	69,174	216,762
End of year	\$ 675,306	\$ 61,737	\$ 737,043	\$ 236,407	\$ 99,874	\$ 336,281

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL****RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES AND****CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the statement of activities are different because:		
<b>Net change in fund balances-total governmental funds</b>	<b>\$ 400,762</b>	<b>\$ 119,519</b>
Government funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. These are the amounts by which capital outlay exceeded or was less than depreciation in the periods presented.		
	<u>2006</u>	<u>2005</u>
Capital Outlay	\$ 56,840	\$ 809
Depreciation Expense	<u>27,507</u>	<u>25,023</u>
	29,333	(24,214)
Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Capital assets:		
Loss from disposal	(13,319)	...
In the statement of activities, certain operating expenses such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation payable increased \$6,646 for 2006 and \$5,715 for 2005.	<u>(6,646)</u>	<u>(5,715)</u>
<b>Change in net assets-governmental activities</b>	<b>\$ <u>410,130</u></b>	<b>\$ <u>89,590</u></b>

9The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
STATEMENTS OF FIDUCIARY NET ASSETS-AGENCY FUND  
June 30, 2006 and 2005

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	<u>Student Activities Fund</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and equivalents	\$ <u>16,584</u>	\$ <u>7,494</u>
 <b>LIABILITIES</b>		
Other current liabilities	\$ <u>16,584</u>	\$ <u>7,494</u>

The accompanying notes are an integral part of these financial statements.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School was formed in 1997 as a nonprofit corporation exempt under Section 501(c)(3) of the Internal Revenue Code. The School was established to provide a strong learning atmosphere and educational program to "at-risk" students.

The financial statements of the East Side Charter School ("East Side") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of East Side are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Use of Estimates

The preparation of basic financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include charges to students or other third parties who purchase, or directly benefit from, goods and services provided, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The **capital projects fund** accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

Additionally, the School reports the following fund type:

- The **agency funds** (fiduciary funds) account for assets held on behalf of student and parent groups.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Amounts reported as program revenues include 1) charges to students for special fees, materials, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Data

Budgets are presented on the modified accrual basis of accounting for the general fund; a budget is not adopted for the capital project fund. Generally, annual appropriations lapse at year end.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. As of June 30, 2006 and 2005, encumbered amounts totaled \$16,800 and \$0, respectively.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Anticipated bad debts are considered to be negligible by management and, accordingly, no provision for bad debts has been presented.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2006 and 2005, the School had no such activity.

Advances between funds in the fund financial statements, when present, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital Assets and Depreciation

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest cost incurred during construction is not capitalized.

Furniture and equipment are depreciated using the straight-line method over their estimated lives ranging between five to 10 years. Leasehold improvements are depreciated using the straight-line method over an estimated life of five years.

Compensated Absences Liability

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination or retirement at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is received when the employee (a) qualifies and applies for State pension and is paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days, or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND EQUIVALENTS**

At June 30, 2006 and 2005, the School had cash and equivalents of \$682,373 and \$383,318, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the years ended June 30 follows:

Description	June 30, 2006			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated:				
Leasehold improvements	\$ 17,425	\$ ...	\$ 17,425	\$ 111,523
Furniture and equipment	122,613		11,090	56,840
Transportation equipment		56,840		
Totals	<u>140,038</u>	<u>56,840</u>	<u>28,515</u>	<u>168,363</u>
Less accumulated depreciation:				
Leasehold improvements	6,388	291	6,679	81,772
Furniture and equipment	70,652	19,637	8,517	7,579
Transportation equipment		7,579		
Totals	<u>77,040</u>	<u>27,507</u>	<u>15,196</u>	<u>89,351</u>
Net capital assets	<u>\$ 62,998</u>	<u>\$ 29,333</u>	<u>\$ 13,319</u>	<u>\$ 79,012</u>

  

Description	June 30, 2005			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated:				
Leasehold improvements	\$ 17,425	\$ ...	\$ ...	\$ 17,425
Furniture and equipment	121,804	809		122,613
Totals	<u>139,229</u>	<u>809</u>	<u>...</u>	<u>140,038</u>
Less accumulated depreciation:				
Leasehold improvements	2,904	3,484		6,388
Furniture and equipment	49,113	21,539		70,652
Totals	<u>52,017</u>	<u>25,023</u>	<u>...</u>	<u>77,040</u>
Net capital assets	<u>\$ 87,212</u>	<u>\$ (24,214)</u>	<u>\$ ...</u>	<u>\$ 62,998</u>

**NOTE 4 - LONG-TERM DEBT OBLIGATIONS**

The following is a summary of changes in long-term obligations:

Description	Year Ended June 30, 2006				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activity:					
Compensated absences	<u>\$ 30,400</u>	<u>\$ 6,646</u>	<u>\$ ...</u>	<u>\$ 37,046</u>	<u>\$ ...</u>

  

Description	Year Ended June 30, 2005				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activity:					
Compensated absences	<u>\$ 24,685</u>	<u>\$ 5,715</u>	<u>\$ ...</u>	<u>\$ 30,400</u>	<u>\$ ...</u>

Compensated absences for governmental activities are generally liquidated by the general fund.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - PENSION PLAN**

School employees are considered State employees and are covered under the State's Multiple Employee Pension Plan. The State contributed 7.44 percent for both 2006 and 2005 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00 percent of salary in excess of \$6,000 per share up to social security maximum and 3.00 percent for any salary above social security maximum. Total pension cost is \$72,232 for 2006 and \$41,852 for 2005 (State share), and \$62,189 for 2006 and \$45,783 for 2005 (local and federal shares) is included in the basic financial statements. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service-age 55 (reduced by 0.2% for each month under age 60)
  - b. 25 years service-any age (reduced by 0.2% for each month short of 30 years)
- Service retirement:
  - a. 15 years service-age 60
  - b. 30 years service-any age
  - c. 5 years service-age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the Office of Pensions' *Comprehensive Annual Financial Report*, which can be obtained from the Office of Pensions, McArdle Building, 860 Silver Lake Boulevard, Suite 1, Dover, Delaware 19904.

**NOTE 6 - LEASING ARRANGEMENTS AS LESSEE**

The School leases its premises and copier equipment under operating leasing arrangements expiring at various dates through 2009. At June 30, 2006, the minimum future rental payments under the non-cancelable operating lease arrangements having remaining terms in excess of one year for the remaining years in the aggregate are:

<u>Fiscal Years Ending June 30</u>	<u>Amount</u>
2007	\$ 4,741
2008	4,741
2009	<u>2,370</u>
Minimum future rental payments required	<u>\$ 11,852</u>

Total rental expense is \$10,542 for 2006 and \$30,616 for 2005.

**EAST SIDE CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 - LEASING ARRANGEMENT AS LESSOR**

On July 11, 2005, the School entered into a sublease arrangement with a Delaware corporation for a term not to exceed one year expiring June 30, 2006. The sublease called for monthly payments of \$2,500. Total rentals received were \$29,091.

**NOTE 8 - RISK MANAGEMENT**

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or act of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. East Side does not anticipate losses from these transactions.

Grants Activity

East Side receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the General Fund. East Side's administration believes such disallowance, if any, would be immaterial.

## **Required Supplemental Information Section**

**EAST SIDE CHARTER SCHOOL**  
**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**  
June 30, 2006 and 2005

	2006				2005			
	Budgeted Amounts		Actual		Budgeted Amounts		Actual	
	Original	Final	Amounts		Original	Final	Amounts	
				Variance with Final Budget Positive (Negative)				Variance with Final Budget Positive (Negative)
<b>REVENUES</b>								
Charges to school districts	\$ 511,988	\$ 511,988	\$ 517,381	\$ 5,393	\$ 261,020	\$ 261,020	\$ 288,445	\$ 27,425
State aid	1,028,337	1,028,337	1,112,540	84,203	667,570	667,570	654,626	(12,944)
Federal aid	208,939	208,939	266,090	57,151	331,040	331,040	235,153	(95,887)
Earnings on cash and equivalents	10,000	10,000	17,767	7,767			7,187	7,187
School food services	50,000	50,000	82,714	32,714	65,000	65,000	60,250	(4,750)
Other local sources	342,536	342,536	692,708	350,172	195,360	195,360	315,449	120,089
<b>Total revenues</b>	<b>2,151,800</b>	<b>2,151,800</b>	<b>2,689,200</b>	<b>537,400</b>	<b>1,519,990</b>	<b>1,519,990</b>	<b>1,561,110</b>	<b>41,120</b>
<b>EXPENDITURES</b>								
Current:								
Salaries	1,153,050	1,153,050	982,147	170,903	851,055	851,055	749,715	101,340
Employment costs	434,008	434,008	373,778	60,230	293,822	293,822	262,092	31,730
Travel	34,200	34,200	7,911	26,289			18,846	(18,846)
Contracted services	532,306	532,306	125,234	407,072	395,100	395,100	91,394	303,706
Communications			12,709	(12,709)			7,110	(7,110)
Public utility services			118,487	(118,487)			9,210	(9,210)
Insurance			32,331	(32,331)			17,885	(17,885)
Transportation-buses			129,738	(129,738)			80,296	(80,296)
Land/Building/Facilities			4,434	(4,434)			32,465	(32,465)
Repairs and maintenance			26,871	(26,871)			7,395	(7,395)
Other contractual services			166,973	(166,973)			103,201	(78,201)
Supplies and materials	188,900	188,900	138,729	50,171	25,000	25,000	71,198	(4,798)
Operating supplies			62,263	(62,263)	66,400	66,400	11,784	(11,784)
Computer/Word Processing/Software			7,675	17,625			3,351	(3,351)
Miscellaneous	25,300	25,300	1,370	(1,370)			642	858
Capital outlay	21,000	21,000	59,651	(38,651)	1,500	1,500	5,707	11,093
Debt service	4,000	4,000		4,000	16,800	16,800		
Contingency reserve	38,857	38,857		38,857				
<b>Total expenditures</b>	<b>2,431,621</b>	<b>2,431,621</b>	<b>2,250,301</b>	<b>181,320</b>	<b>1,649,677</b>	<b>1,649,677</b>	<b>1,472,291</b>	<b>177,386</b>
<b>NET CHANGE IN FUND BALANCES</b>	(279,821)	(279,821)	438,899	718,720	(129,687)	(129,687)	88,819	218,506
<b>FUND BALANCES (DEFICIT)</b>								
Beginning of year	236,407	236,407	236,407		147,588	147,588	147,588	
End of year	<b>(43,414)</b>	<b>(43,414)</b>	<b>\$ 675,306</b>	<b>\$ 718,720</b>	<b>\$ 17,901</b>	<b>\$ 17,901</b>	<b>\$ 236,407</b>	<b>\$ 218,506</b>

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with generally accepted accounting principles on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

## **Additional Information Section**

**EAST SIDE CHARTER SCHOOL**  
**COMBINING BALANCE SHEETS-GENERAL FUND**  
**June 30, 2006 and 2005**

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>ASSETS</b>								
Cash and equivalents	\$ 20,203	\$ 583,849	\$ ...	\$ 604,052	\$ 8,214	\$ 267,736	\$ ...	\$ 275,950
Accounts receivable	...	107,121	...	107,121	...	15,201	...	15,201
Due from other governments	...	31,330	...	31,330	...	4,812	21,052	25,864
<b>TOTAL ASSETS</b>	<b>\$ 20,203</b>	<b>\$ 722,300</b>	<b>\$ ...</b>	<b>\$ 742,503</b>	<b>\$ 8,214</b>	<b>\$ 287,749</b>	<b>\$ 21,052</b>	<b>\$ 317,015</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 31,386	\$ ...	...	\$ 31,386	\$ 9,840	\$ 11,457	\$ ...	\$ 21,297
Accrued salaries and related costs	24,023	9,636	...	33,659	11,160	25,506	21,052	57,718
Deferred revenue	...	2,152	...	2,152	...	1,593	...	1,593
<b>Total liabilities</b>	<b>55,409</b>	<b>11,788</b>	<b>...</b>	<b>67,197</b>	<b>21,000</b>	<b>38,556</b>	<b>21,052</b>	<b>80,608</b>
<b>FUND BALANCES (DEFICIT)</b>								
Reserved for encumbrances	642	16,158	...	16,800	...	...	...	...
Reserved for specific programs	...	526,761	...	526,761	...	217,148	...	217,148
Unrestricted-Designated for contingencies	...	100,000	...	100,000	...	100,000	...	100,000
Unrestricted	(35,848)	67,593	...	31,745	(12,786)	(67,955)	...	(80,741)
<b>Total fund balances (deficit)</b>	<b>(35,206)</b>	<b>710,512</b>	<b>...</b>	<b>675,306</b>	<b>(12,786)</b>	<b>249,193</b>	<b>...</b>	<b>236,407</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 20,203</b>	<b>\$ 722,300</b>	<b>\$ ...</b>	<b>\$ 742,503</b>	<b>\$ 8,214</b>	<b>\$ 287,749</b>	<b>\$ 21,052</b>	<b>\$ 317,015</b>

**EAST SIDE CHARTER SCHOOL**  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-GENERAL FUND  
Years Ended June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>REVENUES</b>								
Charges to school districts		\$ 517,381	\$	\$ 517,381		\$ 288,445	\$	\$ 288,445
State aid	\$ 1,112,540	...	...	1,112,540	\$ 654,626	...	...	654,626
Federal aid	...	...	266,090	266,090	...	...	235,153	235,153
Earnings on cash and equivalents	...	17,767	...	17,767	...	7,187	...	7,187
School food services	...	82,714	...	82,714	...	60,250	...	60,250
Charges for services	...	125,079	...	125,079	...	49,498	...	49,498
Other local sources	...	516,221	...	516,221	...	261,951	...	261,951
Rental revenues	...	29,091	...	29,091	...	...	...	...
Miscellaneous	...	22,317	...	22,317	...	4,000	...	4,000
<b>Total revenues</b>	<b>1,112,540</b>	<b>1,310,570</b>	<b>266,090</b>	<b>2,689,200</b>	<b>654,626</b>	<b>671,331</b>	<b>235,153</b>	<b>1,561,110</b>
<b>EXPENDITURES</b>								
Current:								
Salaries	528,886	313,898	139,363	982,147	365,707	279,767	104,241	749,715
Employment costs	201,450	120,776	51,552	373,778	127,743	97,287	37,062	262,092
Travel	843	1,545	5,523	7,911	1,005	1,712	16,129	18,846
Contracted services	80,226	43,164	1,844	125,234	49,146	39,716	2,532	91,394
Communications	6,427	6,282	...	12,709	4,460	2,650	...	7,110
Public utility services	28,198	90,289	...	118,487	3,457	5,753	...	9,210
Insurance	30,745	1,586	...	32,331	17,885	...	...	17,885
Transportation-buses	80,266	49,472	...	129,738	31,458	48,838	...	80,296
Land/Building/Facilities	2,455	1,979	...	4,434	12,794	19,171	500	32,465
Repairs and maintenance	13,525	13,346	...	26,871	2,186	5,209	...	7,395
Other contractual services	85,409	78,602	2,962	166,973	39,906	48,779	14,516	103,201
Supplies and materials	12,466	62,795	63,468	138,729	11,784	11,489	55,253	71,198
Operating supplies	62,263	...	...	62,263	11,784	...	...	11,784
Computer/Word Processing/Software	1,317	6,480	(122)	7,675	780	1,645	926	3,351
Miscellaneous	104	1,266	...	1,370	...	642	...	642
Capital outlay	380	57,771	1,500	59,651	871	842	3,994	5,707
<b>Total expenditures</b>	<b>1,134,960</b>	<b>849,251</b>	<b>266,090</b>	<b>2,250,301</b>	<b>673,638</b>	<b>563,500</b>	<b>235,153</b>	<b>1,472,291</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(22,420)</b>	<b>461,319</b>	<b>...</b>	<b>438,899</b>	<b>(19,012)</b>	<b>107,831</b>	<b>...</b>	<b>88,819</b>
<b>FUND BALANCES (DEFICIT)</b>								
Beginning of year	(12,786)	249,193	...	236,407	6,226	141,362	...	147,588
End of year	<b>(35,206)</b>	<b>\$ 710,512</b>	<b>\$</b>	<b>\$ 675,306</b>	<b>\$ (12,786)</b>	<b>\$ 249,193</b>	<b>\$</b>	<b>\$ 236,407</b>

## **Other Reports**

Dover, Delaware  
800.355.8210

Media, Pennsylvania  
610.565.5222

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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February 23, 2007

Board of Directors  
**East Side Charter School**  
Wilmington, Delaware

We have audited the financial statements of the governmental activities and each major fund of East Side Charter School, Wilmington, Delaware as of and for the year ended June 30, 2006 and have issued our report thereon dated February 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Side Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect East Side Charter School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and recommendations as items #04-3, #04-4, #05-6 and #06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by

Board of Directors  
**East Side Charter School**

error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described in the accompanying schedule of findings and recommendations as item #05-6 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Side Charter School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items #04-4 and #04-5.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

  
BARBACANE, THORNTON & COMPANY

## **EAST SIDE CHARTER SCHOOL**

### **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

#### **STATUS OF PRIOR YEAR FINDINGS**

##### **FIXED ASSETS - INVENTORY**

###### **04-2 FINDING**

During the prior year audits, it was noted that although the School maintains an annual inventory, the inventory records do not provide proper identification of assets. Management must ensure that adequate internal controls are in place to protect inventories of items for which there is an inherent risk of loss, theft or misuse. Inventory counts should be taken and reconciled to the perpetual inventory records. Periodic inventories help identify assets that may have been misplaced or misappropriated. Policies and procedures for maintaining an inventory system and addressing the disposal of assets are necessary to decrease the risk of theft or misappropriation. When complete and accurate inventory records are not maintained, the School cannot ensure proper safeguarding, reporting, and accountability of property and equipment.

##### **RECOMMENDATION**

It was recommended that the School establish formal policies and procedures requiring the preparation and maintenance of capital asset inventory records to identify and ensure the accountability of assets. Inventory records should include, at a minimum, the description of the property, serial number (or other identifying number), acquisition date, cost, source, location, condition of property, date of disposal and sale price. Policies and procedures should include discussion of "publicly appealing" and other noncapital asset items for the purpose of safeguarding these items against loss or misuse. It was further recommended that inventories be taken, at a minimum, bi-annually.

##### **Status**

During the current year, the School instituted a manual inventory log which contains fixed assets with the acquisition date and cost, and location within the School. This finding is no longer applicable.

##### **FIXED ASSETS - POLICIES AND PROCEDURES**

###### **04-3 FINDING**

During the prior year audits, it was noted that the School has not developed formalized policies and procedures for fixed assets. Written policies and procedures are essential for the efficient control over fixed assets and easily misappropriated/"publicly appealing" assets.

## **EAST SIDE CHARTER SCHOOL**

### **SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

#### **STATUS OF PRIOR YEAR FINDINGS**

##### **RECOMMENDATION**

It was recommended that the School draft fixed asset policies which are in compliance with State minimum requirements. It was further recommended that the School establish policies for items that are "publicly appealing" but below the capitalization threshold.

##### **Status**

This finding is still applicable for the current year.

##### **Corrective Action Plan**

Effective immediately, the School's administrative personnel have agreed to implement formalized policies and procedures for fixed assets within the School. Additionally, these formalized policies and procedures will address items that are considered "publicly appealing" but below the capitalization threshold and be in compliance with the State minimum requirements.

#### **CASH DISBURSEMENT FUNCTION**

##### **04-4 FINDING**

During the prior year audits, it was noted that out of a sample of 25 documents tested, three were not paid within a 30-day time period. The State of Delaware Budget and Accounting Policy Manual states that "the state shall make every effort to issue payment to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services if received after the invoice or bill." Failure to make payment to vendors within 30 days could result in the School incurring interest fees or penalties.

##### **RECOMMENDATION**

It was recommended that the School make payment to all vendors within 30 days and, whenever possible, take advantage of all discounts associated with timely payment.

**EAST SIDE CHARTER SCHOOL**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

**STATUS OF PRIOR YEAR FINDINGS**

Status

During our current year audit, we noted that seven out of 40 bills tested were not being paid to vendors in a timely manner. This finding is still applicable for the current year.

Corrective Action Plan

The School agrees that all bills have not been paid in a timely manner to their respective vendors in the past. Effective July of 2006, the School has agreed to make all payments to vendors within a 30-day period and, whenever possible, take advantage of all discounts associated with timely payment.

To reach the School's targeted objective, Personnel will monitor the cash disbursement function at the School closely.

**REPORTING FUNCTION**

**04-5 FINDING**

During the prior year audits, it was noted that the School did not meet the required reporting deadlines for the FY 2004 bi-annual food reports. According to the Department of Education (DOE), the July through December and January through June reports are due January 31 and July 31, respectively. The School submitted its reports on February 25 and August 24.

RECOMMENDATION

It was recommended that the School submit all reports to the DOE within the established guidelines.

Status

The food reports were not submitted by the required due dates of January 31 and July 31, respectively. This finding is still applicable for the current year.

Corrective Action Plan

The School has agreed to submit all bi-annual food reports to the DOE within a timely manner and closely monitor the deadlines of these reports established by the DOE.

## **EAST SIDE CHARTER SCHOOL**

### **SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

#### **STATUS OF PRIOR YEAR FINDINGS**

##### **EXPENDITURES**

###### **05-1 FINDING**

During our prior year audit, we noted that employee signatures were not always present on the request for reimbursement. We further noted that supporting documentation was not all present. The School did not always adhere to the State's Budget and Accounting Manual. Proper approvals are required and supporting documentation must be maintained.

##### **RECOMMENDATION**

We recommended that before the checks are signed, the check signers review the disbursement and the required backup in order to ensure authorized expenditures are made.

##### **Status**

During our current year audit, we noted that check signers are reviewing disbursements with the required backup. This finding is no longer applicable.

##### **PETTY CASH - RECONCILIATIONS**

###### **05-2 FINDING**

During our prior year audit, we noted that although reconciliations are prepared from the cash collected, those reconciliations are not always accurate. If they are within a dollar or two, the difference is not investigated. Also, reconciliations are not always handed in timely. Monies are collected by the secretary, and the accounting department may not have any knowledge of those monies until a week or two later. Reconciliations should be prepared timely and differences investigated as outlined in the School's policies and procedures. The School was lax in this reconciliation process.

##### **RECOMMENDATION**

We recommended that timely, accurate reconciliations be completed and signed off on a monthly basis.

##### **Status**

During our current year audit, we noted that timely, accurate reconciliations are being completed on a monthly basis. This finding is no longer applicable.

**EAST SIDE CHARTER SCHOOL**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

**STATUS OF PRIOR YEAR FINDINGS**

**CASH RECEIPTS**

**05-3 FINDING**

During our prior year audit, we noted that proper documentation did not accompany the cash receipts. The School did not always adhere to the State's Budget and Accounting Manual. In accordance with the State's Budget and Accounting Manual, proper documentation should accompany the cash receipts.

**RECOMMENDATION**

We recommended that supporting documentation be kept with the cash receipts in order to maintain complete records.

**Status**

During our current year audit, we noted that supporting documentation is being kept with cash receipts. This finding is no longer applicable.

**PETTY CASH - VOUCHERS**

**05-4 FINDING**

During our prior year audit, we noted that not all petty cash vouchers contained receipts for purchases. The School did not always adhere to the State's Budget and Accounting Manual. In accordance with the State's Budget and Accounting Manual, proper documentation should accompany the cash receipts. Although petty cash dis-bursements are approved by the Executive Director before payment, if advances are given for materials or supplies, receipts need to be brought back after the purchase.

**RECOMMENDATION**

We recommended that, if cash must be given in advance, the employee not be issued a second advance if the receipts are not turned in. If the receipts are turned in, then the employee could be issued a second advance. If advances are not necessary, we recommended that petty cash be operated on a reimbursement basis only.

**Status**

During our current year audit, we noted that petty cash is being operated on a reimbursement basis only. This finding is no longer applicable.

**EAST SIDE CHARTER SCHOOL**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

**STATUS OF PRIOR YEAR FINDINGS**

**SUPERCARD PURCHASES**

**05-5 FINDING**

During our prior year audit, we noted that the SuperCard coordinator is responsible for approving applications, facilitating purchases on the SuperCard, reviewing purchases with the Executive Director, reconciling purchases to the PNC bank statement, and preparing and approving IV documents on DFMS. Good controls require a proper segregation of duties. This occurred due to the limited number of staff in the accounting department.

**RECOMMENDATION**

We recommended that there be a segregation of duties. If the SuperCard coordinator is making a purchase, the Executive Director needs to sign off on it to show approval. If the Executive Director is making a purchase, a Board member needs to sign off on the purchase, noting approval.

**Status**

During our current year audit, we noted that a segregation of duties is evident surrounding SuperCard purchases. This finding is no longer applicable.

**SUPERCARD APPROVAL**

**05-6 FINDING**

During our prior year audit, we noted that although SuperCard purchases are to be accompanied by receipts, not all receipts were present. In accordance with the State's Budget and Accounting Manual, supporting documentation must be maintained to support the expenditure. Having receipts ensures complete records and a lower risk of fraud. We tested the months of June and December 2004 totaling 27 transactions, for which 18 had receipts. In addition, the Office of Auditor of Accounts carried out testing for the months of July through September 2004. Following is a chart of our findings which also includes the results of the AOA's testing.

**EAST SIDE CHARTER SCHOOL**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

**STATUS OF PRIOR YEAR FINDINGS**

Month 2004	Transactions	Receipt	No Receipt	Total Value	Value with Receipts	Value without Receipts
<b>Results of Auditors' Findings</b>						
June	13	6	7	\$ 2,453	\$ 867	\$ 1,586
December	14	12	2	\$ 7,351	\$ 7,081	\$ 270
<b>Results of AOA Findings</b>						
July	37	15	22	\$16,940	\$ 4,623	\$12,317
August	47	29	18	\$23,800	\$10,835	\$12,965
September	24	14	10	\$ 3,683	\$ 1,681	\$ 2,002

**RECOMMENDATION**

We recommended that all receipts be present to provide backup for all SuperCard transactions.

**Status**

During our current year audit, we noted that 12 out of 61 transactions tested did not have supporting backup. The dollar amount of these 12 transactions tested totaled \$2,283. This finding is still applicable for the current year. However, when calculating the percentage of error and comparing to the total SuperCard purchases of \$81,774, we noted that the dollar amount is not over materiality; therefore, a qualification will not be made in the current year.

Month 2005-06	Transactions	Receipt	No Receipt	Total Value	Value with Receipts	Value without Receipts
<b>Auditors' Findings - 2005</b>						
October	12	8	4	\$ 1,331	\$ 1,182	\$ 149
November	5	-	5	\$ 881	\$ -	\$ 881
<b>Auditors' Findings - 2006</b>						
April	12	11	1	\$ 1,638	\$ 638	\$ 1,000
May	32	30	2	\$15,057	\$14,804	\$ 253
<b>Total All Months Shown</b>				<b>\$18,907</b>	<b>\$16,624</b>	<b>\$ 2,283</b>

**EAST SIDE CHARTER SCHOOL**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

**STATUS OF PRIOR YEAR FINDINGS**

Corrective Action Plan

The School has agreed to maintain all supporting documentation (receipts) to back up all SuperCard transactions. Additionally, files will be established and stored in the business office of the School to ensure the completeness of records and lower the risk of fraud.

**NON-UTILIZATION OF TECHNOLOGY**

**05-7 FINDING**

During our prior year audit, we noted that East Side Charter School does not utilize PNC's software WORKS to manage the SuperCard program. This software is being provided to improve controls in utilizing the SuperCard and is available to all agencies and divisions to facilitate the effective and efficient management of the SuperCard program.

RECOMMENDATION

We recommended that procedures be put into place in order to utilize the WORKS program to manage the SuperCard program.

Status

During our current year audit, we noted that the WORKS program is being utilized to manage the SuperCard program. This finding is no longer applicable.

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**BUDGET**

**06-1 FINDING**

During our current year audit, we noted that many expenditures were not budgeted.

RECOMMENDATION

We recommend that management review its budgetary procedures to ensure proper reporting.

Corrective Action Plan

Management will develop procedures to ensure the budget is accurate.